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EUROPEAN TRADE RELATIONS WITH SOUTH AMERICA

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The subject of our trade relations with South America is one which has commanded the attention of our statesmen for many years past, and particularly since the great work of Secretary Blaine in calling attention to the bright promise of future trade under the encouragement of reciprocal treaties. It has been so often pointed out as to be familiar to everyone that our imports from South America have steadily increased in proportion to the increase in our own population and the demand for staple South-American products such as coffee, rubber and chocolate, while at the same time our exports of American products and manufactures to the South-American republics have remained practically stationary, or in some cases have even decreased within the past generation. It is generally assumed that this unfavorable balance of trade is absorbed by our European competitors, and that in some way we are failing to secure our just share of the import trade of that continent; the corollary being that the European nations, Great Britain, Germany and France more particularly, are selling a larger share of commodities than their purchases would ordinarily warrant. It is the purpose of this paper to point out some of the causes which must prevent us from forming such a conclusion.

The foreign trade of South America is, and always has been, different from that of the United States, and the causes must be sought for in the different character of its natural resources and the different method by which the continent has been peopled and exploited. There was only one strong motive which led to the early expeditions of discovery and settlement in the western world, and that was the search for gold and the other precious metals to swell the treasuries and promote the development of the European nations, which were then being awakened by the Renaissance from their millennium of sleep. It was due to the discoveries of Columbus and

the conquest of Cortez and Pizarro that the Spanish Empire was brought in the sixteenth century to the pinnacle of its power in Europe, and it was the one thought of the adventurers who laid claim to the new lands in the name of the Spanish crown that the gold and silver mines which they contained would contribute to the maintenance of their home country as the dominant power of Europe. Their expeditions were all organized to seek for precious metals and not to settle, till and peaceably develop. The territories overrun by the Spanish conquerors received no economic benefit from their visitation. If gold were found or seized, it was shipped to Spain, and when the soldier-adventurer's thirst for gold was satisfied, he returned to enjoy his wealth at Madrid or Seville. Under the rule of the Spanish kings, the policy was for a partition of the continent among a relatively few favored parties, who were in a measure held responsible for the draining of the territories committed to their care. This policy was not materially changed in the Brazils after the separation of Portugal from the Spanish crown. Although the colony yielded little gold, the agricultural production under the slave system amounted to the same thing.

North-American settlements did not begin until a century later. The north Atlantic coast, shunned by the Spaniards because of its bleakness and the absence of any known deposits of gold, became attractive to European enterprise only when religious differences and the growing restiveness of the middle classes and country population in northern Europe created a demand for territorial extension and colonization. The settlers of the English, French and Dutch colonies, Canada and Louisiana were men who had broken their home ties and who came to the New World to recreate their farms and homes under conditions of greater religious and economic freedom. Their very existence depended upon their ability to increase and develop the economic value of their surroundings and to replenish, rather than diminish, the productive power of the land. This class of settlers found little encouragement in the Spanish main, and the forays of Drake and Hawkins brought no practical return beyond the temporary money loss to Spain. And in Spain itself, there was no popular movement in the direction of religious freedom or of economic advance which could make sufficient headway to encourage any tendency to permanent colonization by the middle classes. The American colonies of Spain and Portugal

remained, then, as closed preserves dedicated to the search for gold and to production by slave labor; and when the Spanish power crumbled and went to pieces before the successive onslaughts of England, the French monarchy and Napoleon, the descendants of these first conquerors, who had remained in possession and who so nobly fought for and won their national freedom, found themselves masters of a house swept clean, a land impoverished of its mineral wealth and without a population trained to agricultural industry, economy or mental freedom. Under such conditions the history of South America, after the recognition of its independence, could not be other than one of commercial stagnation, and for a time even of national retrogression.

The American republic found itself at birth fully equipped with the elements of national progress. Agricultural development had been the mainstay of the land for a century, and the ravages of the war were quickly repaired. The South-American republics, on the contrary, found themselves with the elements of progress all to create. Agriculture had been left for the most part to the half-breeds and slaves. Gold and silver had been drained from the land until the mines were apparently worked out, and the responsible population, of high breeding, bravery and energy though it were, was yet too sparse to make much of a showing over the vast areas committed to its control.

In the face of such conditions, the South-American proprietors naturally took the most direct means to the acquirement of wealth. Their land was rich and fertile, the warm tropical sun left them little work to do in the planting and harvesting of crops, and their over-sea trade in tropical staples, already of importance in the colonial times, was developed as far as possible; but even so, the path of the new nations was not an easy one. As long as Brazil remained a part of the kingdom of Portugal, Brazilian coffee, sugar and chocolate were entered free in the market of Lisbon and thence sold throughout southern Europe. With the separation of Brazil and the establishment of the empire under Dom Pedro, these commercial favors were withdrawn, and Brazilian coffee, shut out of the Portuguese market by preferential tariffs in favor of the remaining Portuguese colonies, had to seek a market elsewhere. The United States, always the most valuable market for the sale of coffee, did not yet furnish a large consumption, and the destructive wars of the Napo-

leonic period, which had forced the imposition of heavy taxes upon all articles of consumption in France, Germany and England, stifled the coffee trade there. It is worth remembering that the English tax upon coffee has never been removed, and that one of the most promising markets in the world is still closed to this most important article of Brazilian production.

Greater obstacles confronted the South-American state-builders than those which our forefathers had to surmount. The east coast settlements, separated from the west and from each other by leagues upon leagues of impassable jungle, and infested not only by hostile savages and wild beasts, but by that more insidious enemy—disease, were thus prevented from establishing means of intercommunication, and in large measure turned aside from the ambition to explore and push their settlements toward the interior. There grew up, then, a series of isolated communities in which local passions and narrow political strife found easy sway.

The influential men of the new states were not blind to the difficulties which beset them. They saw clearly the need of opening up the country and providing means of communication which should permit the planting, harvesting and shipment of crops and the cheaper transportation of ores to the coast. As the country did not itself possess sufficient accumulated wealth for the accomplishment of such a purpose, it became necessary to float foreign loans, and as early as 1824 the Brazilian government came before the bankers of London for a substantial issue of bonds. In the temporary enjoyment of greater political stability through her imperial form of government, Brazil was able to establish her credit sufficiently to issue new loans as the need arose to convert and carry on the old and still to maintain a position of confidence in the London market, but, unfortunately, a large part of these loans went, not into permanent improvements in the country such as would increase its productive capacity and actual wealth, but into the liquidation of current deficits and the cancellation of internal indebtedness. Year by year they built up a debt which seriously threatened their credit and very existence. It is true that railways and other public works were constructed and that a comparatively large area was thrown open to the cultivation of coffee, but this very development seems to have resulted in ultimate loss to the country through the enormous over-production of coffee which followed and likewise through the concentration of

the productive capacity upon a single crop, which in times of high prices might bring wealth to Brazil, but in lean years meant poverty, deficits and greater indebtedness. To this misfortune was added the far greater one of a depreciated and fluctuating currency. The original gold coinage of Brazil was replaced first by Peruvian silver, which yielded the government a profit of 20 per cent, and this silver was greatly debased by alloy until it reached such a point as not to be passable, when it was replaced by paper currency, which as early as 1819 had become redundant. The Brazilian nation at its outset found itself confronted by a premium on gold and a corresponding lack of power in the world's markets. Since 1825 the milreis has been quoted at its par of 27 pence at the rarest intervals, falling to 17 pence in 1868, again to 19 in 1886, and touching par on the eve of Dom Pedro's overthrow in 1889, only to fall within the next six years to such a point that at the lowest quotation, 5 pence and a fraction, the total receipts of the government would have been barely sufficient to meet the interest on its foreign indebtedness. With a currency of such instability, it was of no value to the country that its soil was fertile and its climate productive. A good year too often meant an over-production of coffee and fall in prices and a further depreciation of the currency; while the nation seemed to learn few lessons from its reverses and made no movement toward the cultivation of other crops either to feed its own people or to provide a reserve of income when the price of coffee should fall. This still continues as a striking feature of Brazilian production. The rich uplands of the state of São Paulo, capable of raising in superabundance any crop known to the science of agriculture, are devoted altogether to the coffee tree, and the fazendeiros must too often submit to the destruction by fire or decay of their unsalable coffee; while the breweries, in the valleys around which tons upon tons of hops and barley might be produced, are forced to send to Germany for those materials.

The position of Brazil, it is true, is somewhat different from that of the other South-American nations, and yet its vast area, practically one-half of the entire continent, and its population, certainly two-fifths of the whole, have to an extent caused it to influence the trade and economic position of its neighbors; and the foreign trade of Brazil, as already indicated, is sufficiently uncertain to deter the average business firm, unacquainted with its peculiarities, from ven-

turing to enter it. The exports of Brazil have steadily increased in money value and enormously in weight, while the imports, representing largely the purchasing power of the country, have been practically stationary for the last twenty-five years. The favorable balance of trade shown every year on the face of the returns, has brought the country little added wealth, and has generally been absorbed by the deficits in the budget and by fluctuations in foreign exchange. The policy of protection to national industries has been steadily followed, but the resources and climate are not such as to encourage manufacture to any great extent, so that the finer qualities of all lines of goods must still be purchased abroad. The stationary volume of imports bears mournful witness to the lowered purchasing capacity of the nation. In twenty years the exports of Brazil have more than doubled, while in thirty years the imports have increased by less than 20 per cent, and the quality of imports has been very fluctuating, with a notable tendency to cheaper purchases in all directions.

The experience of Brazil and that of her southern neighbor, the Argentine Republic, are in many respects similar. Blessed by a less tropical climate, and possessing vast areas of arable land, the first ambition of the Argentine statesman was to secure the construction of railways, and both domestic and foreign loans were floated for this purpose. A succession of good years and high prices, made higher by an unfortunate year or two in Russia and the United States, turned the eyes of Europe upon the Argentine Republic as one of the world's most important granaries. English capital was poured into the country for the construction of railways and the development of wheat and grazing lands, and for a time it seemed as if any Argentine proposition, good or bad, was certain of a favorable reception in the money market of London. Great railway systems were constructed upon the proceeds of these public and private loans, largely through unsettled territory. Vast areas of private lands were hypothecated as security for more loans, often far in excess of the mortgage value. Finally the inevitable crash came, and with the Baring failure and the resulting merciless liquidation the Argentine Republic found itself in the same condition of temporary over-production of one or two staples, depreciated currency, reduced purchasing power abroad, and compulsory retrenchment. The Argentine statesmen were, however, in a better position than their

Brazilian brethren. They had more lines of railway built and a greater area of land opened up to settlement and cultivation. Their climate was more suited to foreign immigration, and their homogeneous people encouraged and welcomed such immigration. It was not many years, then, before the republic began to recover its losses, and to-day, after a bitter period of commercial stagnation, there are abundant signs of returning stability and prosperity.

The history of the west-coast republics is similar in general tendency, if not in detail, to that of their larger sisters to the east. Through over-assurance in the floating of loans for internal improvements, judgment in the expenditure of the funds received, often, to say the least, unfortunate, torn with internal dissensions and local jealousies, their path through the century has not been of the easiest. They, too, have suffered through financial stringency and depreciation of currency, but are fortunate in having been the pioneers of a movement in the direction of saner financial methods. The currencies of Peru and Ecuador have been firmly fixed on the basis of ten dollars to the pound sterling, with a gold currency and reserve. The Chilean currency is now, after some uncertainty, fixed at the rate of eighteen pence sterling to the Chilean dollar. These new standards, although a reduction in scale from the old, mean stability in foreign exchange and a uniform purchasing power, based more nearly upon the actual productiveness of the country. With losses less in volume to recover, with a territory not so great in extent and more easily opened up to exploitation, and with a fortunate subsidence of the deplorable internal disorder, these three republics have now been enabled to lay the foundation of a sound and enduring over-sea trade, which will unquestionably be greatly expanded by the construction of an isthmian canal and must eventually come in large share to the United States. The prospect of a similar development in the River Plate republics and Brazil is by no means clear. The English, German and French capital, so liberally invested in those republics, has yet in large part to be made profitable, and the machinery of finance is necessarily in the control of European money centres. The banking institutions of the Argentine Republic and Brazil continue under the direction of English, French, German or Italian financiers, and the development of the country and its further opening up to outside settlement is dependent largely upon them. Where it is to the banker's interest to remain and watch his invest-

ment, it is naturally to his interest also to encourage the development of trade in both directions, and as it happens that Brazil and the River Plate republics have shown themselves capable of producing in large measure and at a low price articles of primary consumption required throughout Europe, a profitable trade in such products has been built up and enormously extended during the past twenty years. Fast and well-equipped steamers have been built to carry the wheat, hides, wool, frozen beef and mutton from the Argentine Republic and Uruguay and to carry coffee, tobacco, sugar, cacao and rubber from the different states of Brazil. These steamers are all built and controlled by European capital and ply to European ports. The racial traditions of the merchants at each end of the line are a compelling factor in the strengthening and further extension of such a trade. The distance to be traversed is actually less between the ports of southern Europe and Buenos Aires than between Buenos Aires and New York, and the manufactures of England, France and Germany are in constant, though not notably growing, demand in South America. The immigration is increasingly from southern Europe and Germany. There is, therefore, every reason for the continuance and extension of trade between eastern South America and Europe and many reasons against the development of trade between that section and the United States.

Our relations with Brazil are, of course, more important than with the Argentine Republic, but the figures of that trade, when compared with the general trade between Brazil and Europe, do not show such a disadvantage in our direction as might be supposed. We buy, it is true, sixty millions per year and sell only twelve; but the world at large buys of Brazil nearly two hundred millions and sells less than one hundred. With the Argentine Republic, on the other hand, we are dealing not only with a far-distant country, but with one that is actually a strong competitor in its line of production in the markets of Europe. It is quite within the bounds of reason to expect that with the increase in our own population and the relative reduction in the area of our land under cultivation, more and more of our agricultural products will be required at home, and our exports of such products to Europe will be steadily displaced by those from the Argentine Republic and Uruguay. At present we sell to the Argentine Republic more than we buy. No other great nation is so favored.

How far will the present tendencies of trade in eastern South America change as those nations work themselves free from the clutches of unstable finance and become independent of European control? Racial ties, geographical position and established lines of communication will all tend to maintain the present status. A wider spread of intelligent ideas and a more liberal public education will undoubtedly lead to a more rational development of their own resources in such a manner that the fruits of their industry will accrue to their own enjoyment. The absence of any extensive deposits of iron and the comparative poverty of their coal fields must prevent any great manufacturing development such as has taken place in the United States. Brazil and the Argentine Republic must continue indefinitely to depend upon their exports of natural products as the basis of their foreign trade and national life. They are in the world's markets, then, to dispose of their goods to the best customer and to buy what they require where the best bargain can be made. The wool clip of the Argentine Republic is now almost entirely consumed in France, England and Germany, the cereals are distributed all over Europe, the hides go to France and England, and the frozen beef and mutton, the beef extract and the by-products of the cattle industry also find a ready market in France and England. The conditions in the United States are very different. We require little of all this wealth of production, unless it be hides and wool, and up to the present time both of these products have been excluded from our markets by protective duties. That a growing need on the part of our woolen and leather manufacturers may cause a future reduction of these two duties is quite possible, but even then the volume of trade coming to this country would be so small as to require no particular change in banking methods or shipping facilities to take care of it conveniently. We must look to an increase of trade in the Argentine almost entirely along the lines of specialized manufacture required for the development of that country. This trade must still continue of an occasional character, and the ships chartered to carry the merchandise exported must either look for return cargoes to Europe or come north to Brazil for a cargo of coffee or other tropical products.

Our trade with Brazil may be expected to increase as our need for coffee and rubber increases, but as we are already among the largest per capita consumers of both those products, a more natural

field of increase would be in England, where coffee is still excluded by high taxation, or in such of the European countries as are not now addicted to its use.

The annual per capita consumption of coffee in the United States is nearly ten pounds, and in England, where the war taxes of the Napoleonic period are still levied upon coffee, the per capita consumption is less than three-quarters of a pound. With the exception of Holland, where the consumption is about twelve pounds per capita, no European country equals the United States in this respect, and in most of them the consumption is less than half.

The European capital which has entrenched itself in Brazil and the Argentine Republic will naturally fight to maintain its position, and will be content with the slow working-out of prosperity through periods of depression, of long credits, low interest and uncertainty rather than withdraw and leave the fruits of its labor to a newcomer. Along the west coast, however, where English and European capital has been directed almost entirely to the production of specific commodities, such as nitrate of soda, there is more opportunity for new spheres of influence and much more prospect of commercial and financial relations with the United States. Ever increasing their natural strength, directing their best intelligence to the devising of more stable currency and banking institutions, and applying to their own advantage the knowledge obtained from other countries, the future statesmen of Brazil and the Argentine Republic may be expected to form two nations well fitted to enter into the fellowship of American powers and to help defend the weaker members of the fellowship from outside aggression; but it seems inevitable that this relation of fellowship will continue political and not commercial. Their commerce will continue to follow the line of least resistance, and their own merchants, no less than their associates in England, France, Germany and Italy, will look to the future to retrench the losses, uncertainties and delays of which the past has been so unhappily productive.